

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Township of Addison	County Oakland
Audit Date March 31, 2004	Opinion Date May 24, 2004	Date Accountant Report Submitted To State: July 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Township of Addison Oakland County, Michigan

**Financial Report
with Additional Information
March 31, 2004**

Township of Addison

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Independent Auditor's Report

To the Board of Trustees
Township of Addison
Oakland County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Addison, Oakland County, Michigan as of March 31, 2004 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Addison's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements present fairly, in all material respects, the financial position of the Township of Addison, Oakland County, Michigan as of March 31, 2004 and the results of its operations and the cash flows of its Trust Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 24, 2004

Township of Addison

	Governmental Fund Types		Fiduciary Fund Type
	General	Special Revenue	Trust and Agency
Assets			
Cash and cash equivalents (Note 2)	\$ 594,725	\$ 502,820	\$ 2,048,636
Restricted assets (Note 3)	80,928	776,702	-
Receivables:			
Taxes (Note 4)	19,483	97,835	-
Due from other funds (Note 5)	556,850	1,595,749	-
Due from other governmental units	58,111	-	-
Capital assets (Note 6)	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Other assets	-	-	30
Total assets	<u>\$ 1,310,097</u>	<u>\$ 2,973,106</u>	<u>\$ 2,048,666</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 34,448	\$ 225,725	\$ -
Other liabilities	32,998	-	-
Due to other funds	226,845	206,810	1,718,944
Due to other governmental units	-	-	328,692
Long-term debt (Note 7)	-	-	-
Total liabilities	294,291	432,535	2,047,636
Fund Equity			
Investment in general fixed assets	-	-	-
Fund balances:			
Reserved (Note 8)	124,628	776,702	-
Unreserved:			
Designated for working capital	301,062	1,500,969	-
Designated for building improvements	250,000	-	-
Designated for cemetery improvements	45,000	-	-
Undesignated	295,116	262,900	1,030
Total fund equity	1,015,806	2,540,571	1,030
Total liabilities and fund equity	<u>\$ 1,310,097</u>	<u>\$ 2,973,106</u>	<u>\$ 2,048,666</u>

Combined Balance Sheet
All Fund Types and Account Groups
March 31, 2004

Account Groups		
General Fixed Assets	General Long-term Debt	Total (Memorandum Only)
\$ -	\$ -	\$ 3,146,181
-	-	857,630
-	-	117,318
-	-	2,152,599
-	-	58,111
6,228,762	-	6,228,762
-	885,525	885,525
-	-	30
<u>\$ 6,228,762</u>	<u>\$ 885,525</u>	<u>\$ 13,446,156</u>
\$ -	\$ -	\$ 260,173
-	-	32,998
-	-	2,152,599
-	-	328,692
-	885,525	885,525
-	885,525	3,659,987
6,228,762	-	6,228,762
-	-	901,330
-	-	1,802,031
-	-	250,000
-	-	45,000
-	-	559,046
<u>6,228,762</u>	<u>-</u>	<u>9,786,169</u>
<u>\$ 6,228,762</u>	<u>\$ 885,525</u>	<u>\$ 13,446,156</u>

Township of Addison

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - All Governmental Fund Types Year Ended March 31, 2004

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Revenue			
Property taxes	\$ 301,583	\$ 1,500,969	\$ 1,802,552
Licenses and permits	159,493	-	159,493
State revenue sharing	450,821	-	450,821
Federal grant	7,151	-	7,151
Charges for services	48,926	-	48,926
Interest	44,942	24,467	69,409
Other revenue	62,366	76,094	138,460
Total revenue	1,075,282	1,601,530	2,676,812
Expenditures			
Legislative - Township Board	7,756	-	7,756
General government	777,879	-	777,879
Public safety	193,991	2,198,051	2,392,042
Public works	113,141	-	113,141
Parks and recreation	-	203,543	203,543
Total expenditures	1,092,767	2,401,594	3,494,361
Excess of Expenditures Over Revenue	(17,485)	(800,064)	(817,549)
Other Financing Sources (Uses)			
Proceeds from issuance of debt	-	850,000	850,000
Operating transfers in	-	208,649	208,649
Operating transfers out	(208,649)	-	(208,649)
Total other financing sources (uses)	(208,649)	1,058,649	850,000
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(226,134)	258,585	32,451
Fund Balances - April 1, 2003	1,241,940	2,281,986	3,523,926
Fund Balances - March 31, 2004	<u>\$ 1,015,806</u>	<u>\$ 2,540,571</u>	<u>\$ 3,556,377</u>

Township of Addison

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 297,200	\$ 301,583	\$ 4,383
Licenses and permits	139,600	159,493	19,893
State revenue sharing	470,000	450,821	(19,179)
Federal grant	23,850	7,151	(16,699)
Charges for services	37,700	48,926	11,226
Interest	20,000	44,942	24,942
Other revenue	88,700	62,366	(26,334)
Operating transfers from other funds	-	-	-
Proceeds from issuance of debt	-	-	-
Total revenue	1,077,050	1,075,282	(1,768)
Expenditures			
Legislative - Township Board	10,600	7,756	2,844
General government	860,672	777,879	82,793
Public safety	193,800	193,991	(191)
Public works	213,400	113,141	100,259
Parks and recreation	-	-	-
Operating transfers to other funds	202,599	208,649	(6,050)
Total expenditures	1,481,071	1,301,416	179,655
Excess of Revenue Over (Under) Expenditures	(404,021)	(226,134)	177,887
Fund Balances - April 1, 2003	1,241,940	1,241,940	-
Fund Balances - March 31, 2004	<u>\$ 837,919</u>	<u>\$ 1,015,806</u>	<u>\$ 177,887</u>

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General and Special Revenue Fund Types
Year Ended March 31, 2004**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,431,978	\$ 1,500,969	\$ 68,991
-	-	-
-	-	-
-	-	-
-	-	-
-	24,467	24,467
39,005	76,094	37,089
202,599	208,649	6,050
850,000	850,000	-
2,523,582	2,660,179	136,597
-	-	-
-	-	-
2,765,500	2,198,051	567,449
-	-	-
247,910	203,543	44,367
-	-	-
3,013,410	2,401,594	611,816
(489,828)	258,585	748,413
2,281,986	2,281,986	-
<u>\$ 1,792,158</u>	<u>\$ 2,540,571</u>	<u>\$ 748,413</u>

Township of Addison

Combined Statement of Revenue, Expenses, and Changes in Fund Balance - Cemetery Trust Fund Year Ended March 31, 2004

Revenue	
Interest income	\$ 30
Miscellaneous income	<u>14</u>
Net Income	44
Fund Balance - April 1, 2003	<u>986</u>
Fund Balance - March 31, 2004	<u><u>\$ 1,030</u></u>

Township of Addison

Combined Statement of Cash Flows Cemetery Trust Fund Year Ended March 31, 2004

Cash Flows from Operating Activities - Miscellaneous income	\$ 14
Cash Flows from Investing Activities - Interest income	30
Cash Flows from Noncapital Financing Activities - Net change in due to and due from other funds	<u>(14)</u>
Net Change in Cash and Cash Equivalents	30
Cash and Cash Equivalents - April 1, 2003	<u>1,000</u>
Cash and Cash Equivalents - March 31, 2004	<u><u>\$ 1,030</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 44
Net change in investment income classified as operating	<u>(30)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 14</u></u>

Township of Addison

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Addison (the "Township") conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Township is governed by an elected, seven-member Board of Trustees. As required by generally accepted accounting principles, these financial statements present the Township of Addison. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Fund Accounting

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Cemetery Trust and the Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. Tax bills are mailed and become a lien on December 1 of the following year. These taxes are due with the final collection date of the last day in February before they are added to the county tax rolls.

- b. Interest on other long-term debt is not recorded as an expenditure until its due date.
- c. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposit as well as short-term investments with original maturities of three months or less from the date of acquisition.

Township of Addison

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Deposits

The Township's deposits at March 31, 2004 are included on the balance sheet as cash and cash equivalents and restricted assets. The components are as follows:

Deposits in financial institutions (checking accounts, savings accounts, and certificates of deposit)	\$ 3,146,081
Restricted assets (Note 3)	857,630
Petty cash and cash on hand	<u>100</u>
Total	<u>\$ 4,003,811</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$4,194,333. Of that amount, \$200,000 was covered by federal depository insurance and \$3,994,333 was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Addison

Notes to Financial Statements March 31, 2004

Note 3 - Restricted Assets

The balance of the restricted asset account relates to unspent installment loan proceeds of \$776,702 for the construction of the new fire station and \$80,928 received from Great Lakes Gravel for future cleanup of the Great Lakes Gravel site.

Note 4 - Property Taxes Receivable

The delinquent real property taxes of the Township are purchased by the County of Oakland. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these property taxes. These taxes have been recorded as revenue for the current year.

Note 5 - Interfund Receivables

The following are the interfund receivables at March 31, 2004:

General Fund:

Current tax collection	\$ 315,811
Police protection	34,229
Fire operating	44,931
Fire capital	10,260
Park acquisition	<u>151,619</u>

Total General Fund	556,850
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Special Revenue Funds:

Police protection - Current tax collection	734,586
Police protection - General Fund	22,528
Fire capital - Current tax collection	174,573
Fire operating - Current tax collection	493,974
Park acquisition - General Fund	<u>170,088</u>

Total Special Revenue Funds	<u>1,595,749</u>
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Total	<u><u>\$ 2,152,599</u></u>
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Township of Addison

Notes to Financial Statements March 31, 2004

Note 6 - Capital Assets

A summary of changes in general fixed assets is as follows:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Land and land improvements	\$ 3,172,597	\$ 8,232	\$ -	\$ 3,180,829
Buildings	420,164	-	-	420,164
Equipment	1,708,213	167,919	-	1,876,132
Construction in progress	-	751,637	-	751,637
Total	<u>\$ 5,300,974</u>	<u>\$ 927,788</u>	<u>\$ -</u>	<u>\$ 6,228,762</u>

Construction Commitments - The Township has an active construction project at year end relating to the new fire station. At year end, the Township has spent \$716,426 and has a remaining commitment of approximately \$667,000.

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the changes in general long-term debt:

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
Installment purchase loan	\$ -	\$ 850,000	\$ -	\$ 850,000
Installment contract payable	166,143	-	166,143	-
Long-term portion of sick time accrual	-	2,825	-	2,825
Property tax tribunal cases	<u>34,166</u>	<u>-</u>	<u>1,466</u>	<u>32,700</u>
Total General Long-term Debt Account Group	<u>\$ 200,309</u>	<u>\$ 852,825</u>	<u>\$ 167,609</u>	<u>\$ 885,525</u>

Township of Addison

Notes to Financial Statements March 31, 2004

Note 7 - Long-term Debt (Continued)

During the year, the Township paid off the installment contract payable which had an interest rate of 4.25 percent, a maturity date of 2005, and quarterly payments of \$17,857 plus interest.

During the year, the Township took out an installment purchase loan with an interest rate of 3.495 percent, a maturity date of May 1, 2013, and annual payments of \$100,660 including interest.

Debt Service Requirements

The annual requirements to service all debt outstanding (excluding the sick time accrual and the tax tribunal cases) as of March 31, 2004, including both principal and interest, are as follows:

Years Ending March 31	General Obligations		
	Principal	Interest	Total
2005	\$ 85,806	\$ 14,854	\$ 100,660
2006	73,580	27,080	100,660
2007	76,188	24,472	100,660
2008	78,887	21,773	100,660
2009	81,631	19,029	100,660
2010-2014	453,908	49,392	503,300
Total	<u>\$ 850,000</u>	<u>\$ 156,600</u>	<u>\$ 1,006,600</u>

Interest

Total interest incurred by the Township for the year approximated \$7,000.

Note 8 - Reserved Fund Balances

The fund balance of the General Fund has been reserved in the amount of \$43,700 and \$80,928 for subsequent years' special assessment expenditures and Great Lakes Gravel expenditures, respectively.

The fund balance of the Fire Capital Special Revenue Fund has been reserved in the amount of \$776,702 for unspent installment loan proceeds related to the new fire station.

Township of Addison

Notes to Financial Statements March 31, 2004

Note 9 - Budget Information

The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The final budget amendments were approved subsequent to March 31, 2004.

The budget has been prepared in accordance with generally accepted accounting principles except that operating transfers and debt proceeds have been included in the "revenue and expenditures" categories, rather than as "other financing sources (uses)."

The budget statement (combined statement of revenue, expenditures, and changes in fund balances - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. The following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances - all governmental fund types):

	General Fund		Special Revenue Funds	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 1,075,282	\$ 1,092,767	\$ 1,601,530	\$ 2,401,594
Proceeds of debt recorded as revenue	-	-	850,000	-
Operating transfers recorded as revenue and expenditures	-	208,649	208,649	-
Amounts per budget statement	<u>\$ 1,075,282</u>	<u>\$ 1,301,416</u>	<u>\$ 2,660,179</u>	<u>\$ 2,401,594</u>

Note 9 - Budget Information (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Township Board is included in the general purpose financial statements. This comparison includes budget overruns of an immaterial amount. A comparison of the actual results of operations to the individual Special Revenue Funds budgets as adopted by the Township Board is available at the Township clerk's office for inspection.

Note 10 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits provided to employees and employee injuries (workers' compensation), and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

Note 11 - Joint Venture

During November 2001, the Township became a member of the North Oakland Transportation Authority (NOTA), which provides transportation services to the residents of Oxford, Orion, and Addison. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$23,000 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for NOTA are available upon request from NOTA at 1370 South Lapeer Road, Oxford, MI 48371.

Township of Addison

Notes to Financial Statements March 31, 2004

Note 12 - Construction Code Fees

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - April 1, 2003		\$ (20,064)
Building permit revenue		128,499
Related expenses:		
Direct costs	\$ 115,439	
Estimated indirect costs	<u>3,855</u>	
Total construction code expenses		<u>119,294</u>
Cumulative shortfall - March 31, 2004		<u>\$ (10,859)</u>

Note 13 - Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

The local units of government appealed this decision and during 2003, the Michigan Tax Tribunal entered its judgment to uphold the new tables. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds of approximately \$5,300 from the General Fund and \$27,400 from the Special Revenue Funds. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded in the General Long-term Debt Account Group.

Note 14 - Upcoming Reporting Change

For the year beginning April 1, 2004, the Township plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total, on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.

Additional Information

To the Board of Trustees
Township of Addison
Oakland County, Michigan

We have audited the general purpose financial statements of the Township of Addison as of and for the year ended March 31, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Township of Addison. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

May 24, 2004

Township of Addison

General Fund Schedule of Expenditures - Budget and Actual Year Ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
Legislative - Township Board	\$ 10,600	\$ 7,756	\$ 2,844
General government:			
Supervisor	85,234	82,186	3,048
Elections	11,000	1,713	9,287
Assessor	47,550	42,826	4,724
Professional fees	207,000	188,288	18,712
Clerk	111,934	104,514	7,420
Board of Review	650	697	(47)
Treasurer	93,834	94,790	(956)
Building and grounds	52,100	26,783	25,317
Cemetery	47,420	48,180	(760)
Community projects	25,000	26,430	(1,430)
Equipment	18,000	8,786	9,214
Insurance and other	160,950	152,686	8,264
Total general government	860,672	777,879	82,793
Public safety:			
Building department	120,950	122,883	(1,933)
Planning	68,250	67,322	928
Board of Appeals	4,600	3,786	814
Total public safety	193,800	193,991	(191)
Public works:			
Highways and streets	182,000	100,137	81,863
Street lighting	1,400	1,390	10
Special assessments	12,000	8,279	3,721
Engineering	18,000	3,335	14,665
Total public works	213,400	113,141	100,259
Operating transfers to other funds	202,599	208,649	(6,050)
Total expenditures	<u>\$ 1,481,071</u>	<u>\$ 1,301,416</u>	<u>\$ 179,655</u>

Note: The information projected above is for management analysis purposes only. It shows greater detail than the budget adopted by the Township Board, which is reflected in the general purpose financial statements.

Township of Addison

Combining Balance Sheet - All Special Revenue Funds March 31, 2004

	Police Protection	Fire Capital	Fire Operating	Park Acquisition	Total
Assets					
Cash and cash equivalents	\$ 192,664	\$ 172,005	\$ 129,718	\$ 8,433	\$ 502,820
Restricted assets	-	776,702	-	-	776,702
Taxes receivable	51,220	12,172	34,443	-	97,835
Due from other funds	<u>757,114</u>	<u>174,573</u>	<u>493,974</u>	<u>170,088</u>	<u>1,595,749</u>
Total assets	<u>\$ 1,000,998</u>	<u>\$ 1,135,452</u>	<u>\$ 658,135</u>	<u>\$ 178,521</u>	<u>\$ 2,973,106</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 67,144	\$ 146,090	\$ 12,491	\$ -	\$ 225,725
Due to other funds	<u>-</u>	<u>10,260</u>	<u>44,931</u>	<u>151,619</u>	<u>206,810</u>
Total liabilities	67,144	156,350	57,422	151,619	432,535
Fund Balances					
Reserved	-	776,702	-	-	776,702
Unreserved:					
Designated for working capital	785,806	186,746	528,417	-	1,500,969
Undesignated	<u>148,048</u>	<u>15,654</u>	<u>72,296</u>	<u>26,902</u>	<u>262,900</u>
Total fund equity	<u>933,854</u>	<u>979,102</u>	<u>600,713</u>	<u>26,902</u>	<u>2,540,571</u>
Total liabilities and fund balances	<u>\$ 1,000,998</u>	<u>\$ 1,135,452</u>	<u>\$ 658,135</u>	<u>\$ 178,521</u>	<u>\$ 2,973,106</u>

Township of Addison

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - All Special Revenue Funds Year Ended March 31, 2004

	Police Protection	Fire Capital	Fire Operating	Park Acquisition	Total
Revenue					
Property taxes	\$ 785,806	\$ 186,746	\$ 528,417	\$ -	\$ 1,500,969
Interest	7,939	11,959	4,345	224	24,467
Other revenue	<u>10,461</u>	<u>-</u>	<u>64,913</u>	<u>720</u>	<u>76,094</u>
Total revenue	804,206	198,705	597,675	944	1,601,530
Expenditures					
Police protection	791,262	-	-	-	791,262
Fire protection	-	925,499	481,290	-	1,406,789
Parks and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>203,543</u>	<u>203,543</u>
Total expenditures	<u>791,262</u>	<u>925,499</u>	<u>481,290</u>	<u>203,543</u>	<u>2,401,594</u>
Excess of Revenue Over (Under) Expenditures	12,944	(726,794)	116,385	(202,599)	(800,064)
Other Financing Sources					
Proceeds from debt issuance	-	850,000	-	-	850,000
Operating transfers in	<u>-</u>	<u>6,050</u>	<u>-</u>	<u>202,599</u>	<u>208,649</u>
Total other financing sources	<u>-</u>	<u>856,050</u>	<u>-</u>	<u>202,599</u>	<u>1,058,649</u>
Excess of Revenue and Other Financing Sources Over Expenditures	12,944	129,256	116,385	-	258,585
Fund Balances - April 1, 2003	<u>920,910</u>	<u>849,846</u>	<u>484,328</u>	<u>26,902</u>	<u>2,281,986</u>
Fund Balances - March 31, 2004	<u>\$ 933,854</u>	<u>\$ 979,102</u>	<u>\$ 600,713</u>	<u>\$ 26,902</u>	<u>\$ 2,540,571</u>

Township of Addison

Combining Balance Sheet - All Trust and Agency Funds March 31, 2004

	Expendable Trust - Cemetery	Current Tax Collection	Agency	Total
Assets				
Cash and cash equivalents	\$ 1,030	\$ 1,978,236	\$ 69,370	\$ 2,048,636
Other assets	-	-	30	30
Total assets	<u>\$ 1,030</u>	<u>\$ 1,978,236</u>	<u>\$ 69,400</u>	<u>\$ 2,048,666</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ 1,718,944	\$ -	\$ 1,718,944
Due to other governmental units	-	259,292	69,400	328,692
Total liabilities	-	1,978,236	69,400	2,047,636
Fund Balances - Unreserved - Undesignated	<u>1,030</u>	<u>-</u>	<u>-</u>	<u>1,030</u>
Total liabilities and fund balances	<u>\$ 1,030</u>	<u>\$ 1,978,236</u>	<u>\$ 69,400</u>	<u>\$ 2,048,666</u>



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May 24, 2004

Board of Trustees
Addison Township
1440 Rochester Road
Leonard, Michigan 48367

Dear Board Members:

We recently completed our audit of the general purpose financial statements of Addison Township for the year ended March 31, 2004. As a result of our audit, we have the following comments and recommendations for your review and consideration.

FINANCIAL RESULTS

For the year ended March 31, 2004, the Township's General Fund fund balance was reduced by approximately \$226,000. The poor economy has continued to affect the General Fund fund balance. The Township has been able to weather the economic downturn over the past few years due to having a healthy fund balance which was built up in years of good economic growth. As you are aware, state shared revenue accounts for approximately 42% of General Fund Revenue. Over a two year period, state shared revenue has decreased approximately 21% from the year ending March 31, 2002 to the year ending March 31, 2004. In addition, due to circumstances outside of the Township's control, interest rates available on investments are at a low point in comparison to the last 25 years or more, the result is that interest income has decreased approximately 21% over that same two year period. The Township has made efforts to keep expenditures down to combat the revenue stream decreases.

Many Townships report Police Protection, Fire Operating, and Park Acquisition activities as part of the General Fund. Looking at these funds combined, the fund balance decreased only approximately \$96,805 from March 31, 2003 to March 31, 2004. This decrease is approximately equal to the additional payment made on the installment contract related to the Park Acquisition Fund activity.

As the Board is aware, this prepayment was not required, but was made at the discretion of the Township Board, after your analysis showed that the interest rate on the liability was greater than the interest rate the Township was able to earn on its investments. This additional payment allowed the Township to pay off the installment contract early in order to reduce future interest costs. Without this additional advance payment, the combined funds fund balance would have virtually no change from March 31, 2003 to March 31, 2004.

With these decreasing revenue streams caused by the reduction in state shared revenue and other economic factors affecting municipal finance, it is growing more difficult for governmental units to fund essential community costs. With the exception of local governments with a significant growing tax base and room for more development, there are structural problems with the municipal finance model in the State. Governmental units in Michigan face numerous challenges to their ability to raise revenue. In general, these factors would include the restricted growth of property tax revenue under Proposal A and the Headlee Amendment, and decreased investment returns. These items have impacted many other municipalities in Michigan where

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the governmental unit's growth in expenditures is outpacing the growth in revenues for an extended period of time. With expected additional decreases in state shared revenue, the limitation of property tax growth, rising health care and pension costs, and stagnant interest rates, the Township will continue to face significant financial challenges in its 2005 fiscal year.

We would strongly encourage the Township to consider taking its financial planning one step further (from both an operational and capital perspective) over a multi-year period. The Township should continually review its long range financial plans through the use of a five year plan model in order to ensure continued financial viability over the long-run in this uncertain municipal environment.

MUNICIPAL FINANCE ACT – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing (Municipal Qualifying Statement) once a year with the Michigan Department of Treasury. This filing can be done online with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the Township's year-end (September 30, 2004) and is good through the extended due date of the ensuing year's financial statement filing (September 30, 2005).

NEW FINANCIAL REPORTING MODEL

As we approach the March 31, 2005 implementation date of GASB 34, the statement which will create a new governmental reporting model, we would like to remind you of the additional time, effort and costs that will be associated with this process. As you are aware, some of the changes in this model include:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There will be two columns, one for government activities and one for enterprise activities.
- A new definition of enterprise activities (probably any activity that charges its users a fee that is intended to finance the majority of operating cost).
- Capital assets and their related depreciation will be reported.

As of March 31, 2004, the Township will need to prepare an additional balance sheet in accordance with this new statement. This will be necessary in order to complete an audit of the March 31, 2005 financial statements. We would like to remind you that the effort (both internal and external) to implement this new pronouncement could be significant. Plante & Moran is in an excellent position to assist your staff with implementation. We were hired by the Michigan Municipal Finance Officers Association to train finance directors across the state. Our firm has developed training materials and tools to facilitate implementation. However, given the magnitude of the project, the demands on your staff will be substantial and will require outside assistance.

STATE FUNDING OVERVIEW

As mentioned above, the Township will continue to feel the effects of the State's budget difficulties. State shared revenue accounts for approximately 42% of the Township's total General Fund revenue. While statewide sales tax collections (the sole source of revenue sharing payments to local units of government) are actually holding up, the State's income tax and single business tax revenues continue to be disappointing, resulting in state budget problems.

As a result, the State reduced its revenue sharing payments in each of the years ended September 30, 2002, 2003 and now 2004. The Governor has presented her proposal for the September 30, 2005 budget to the Legislature. The Governor's proposal is to hold state shared revenue steady for cities, townships and villages for 2005. Counties would find their state shared revenue eliminated and be allowed to levy taxes that would go into an escrow fund and be used to assist with the loss of revenue sharing over a period of years. The Legislature continues to debate the Governor's budget proposal, which could be modified prior to passage.

It appears that the short term future of state shared revenue is tied to the increase in the cigarette tax. Also, the counties are opposed to the elimination of statutory revenue sharing. Due to this line item in the State's budget remaining vulnerable, we continue to urge the Township to be conservative in its estimation of state share revenue. We recommend the Township budget at least 5% less than 2003/2004 levels. This will serve as a precautionary measure against the State's uncertain budget.

We recommend that the Township continue to evaluate the impact of the revenue sharing reductions on the 2004 budget. In addition, updated information can be obtained from the Department of Treasury's web site or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the Township as developments occur

PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%
1999	1.6%	1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2003 inflation factor is being used for property taxes levied in the Township's year ended March 31, 2004. Property taxes are the Township's largest source of General Fund revenue. However growth in existing property can be significantly limited due to Proposal A. As the Township is aware, this factor should be considered when the Township is involved in long-term financial planning. The 2004 inflation factor is 2.3%.

PROPERTY TAXES (Continued)

In addition, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the Township was no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

In addition, for personal property tax bills issued in the year 2000, the revised personal property tax tables implemented for the State Tax Commission were in effect. In addition to revisions made to the general personal property tax tables, the State Tax Commission also approved new personal property tax tables for utilities. The new tables made drastic changes to the transmission and distribution property of utilities. General estimates are that the uses of the new utility tables result in approximately a 30% revenue loss on those properties. The Township, like many other communities, had elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. The new utility personal property tax tables implemented by the State Tax Commission were upheld in the lawsuit and recently on appeal. Ultimately, an unfavorable judgment could result in the Township having to refund approximately \$32,000 to the utilities.

CONDITION OF ACCOUNTING RECORDS AND CONTROLS

Financial Reporting Management – During the current year, the Township implemented a new fund accounting software. The new software implementation allowed the Township to significantly improve the accuracy, timeliness, and completeness of reports, bank reconciliations, and overall financial monitoring. In addition, some internal structure changes allowed the Township to enhance internal controls. However, the new system also presented the Township with some challenges inherent with a first year software implementation. We would like to commend the Township on incorporating all funds within the new software, improving cash disbursement system, and completing timely bank reconciliations. In addition, we would like to suggest a few items related to the new software implementation in order to further attempt to improve the financial process at the Township.

Interfund receivables and payables - Through the course of normal operations, "interfund" receivables and payables are created between funds. Because of the significant investment of time needed to make the substantial improvements described above, some areas were not fully implemented during 2004. One of those areas is the reconciliation and settling up of the interfund balances. This is an area which should be given priority on a going forward basis. We have worked with the personnel responsible for the accounting process at the Township, and it is our understanding that they have begun a process to reconcile interfund activity through the date of our audit report and will put a new interfund procedure in place for the fiscal year ending March 31, 2005 which will allow for the reconciliation between the funds to be done in a timely and more efficient manner. At a minimum, interfund activity should be reconciled and potentially settled on a monthly basis.

Internal Control Considerations - During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit.

The Board should be pleased to note that the extra inquiries and testing that was required did not reveal any material problem areas.

BUDGETING

We noted several areas which the new financial software will aid the Township related to the monitoring of compliance with the State of Michigan Budget Act. Your financial staff will be utilizing the new software to greater extent in 2005, as they are aware of its importance as a tool to help the Township spend in a manner consistent with its objectives, especially in light of the continual challenges that the Township faces involving its major revenue sources. Items and recommendations noted in the 2003 and 2004 audits which can be improved with the effective use of the new software are as follows:

1. Expenditures should not be made in excess of budgeted amounts at the activity level adopted by the Township Board.
2. Budgets for both revenue and expenditures are required for the General Fund, and all Special Revenue Funds.
3. The final budget amendments were approved subsequent to the fiscal year ending March 31, 2004. The Township should adopt final amendments prior to the fiscal year end. This will become an easier task as the new software system allows for financial data to be updated in a timely manner.
4. The Township should incorporate in its budget all expected financial activity including planned operating transfers and proceeds received from debt issuances.

CASH RECEIPTS

The Township should continue to consider the following in order to enhance its internal control system over cash receipts:

- The Township currently takes cash receipts, other than property tax payments, to the bank twice a month. The Township should consider depositing in the bank and reconciling cash receipts on a more frequent basis.
- The Township currently manually enters cash receipts into the general ledger system. The Township may want to consider adopting the cash register module of the new software implemented in the current year. This module would allow cash receipts to be posted automatically to the general ledger system when entered into the cash register. This would eliminate the need for manual general ledger input of cash receipts and would allow the Township to have current financial data on a daily basis.

We would like to thank the Board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver



Kathryn J. Kercorian